

DEPARTMENT OF HEALTH SERVICES

714/744 P STREET

FRAMMENTO, CA 95814

(6) 322-4990



April 7, 1981

To: All County Welfare Directors

Letter No. 81-15

MEDICAID INPATIENT HOSPITAL REIMBURSEMENT

Federal regulations (CFR 42-477.205) require that any change in the Statewide method or level of reimbursement for Medicaid services be publicly noticed at least 60 days before the proposed effective date of the change. A local agency in each county must also be identified where copies of the proposed changes are available for public review.

The county welfare offices in each California county have been so designated for the enclosed regulations on inpatient hospital reimbursement. We therefore request that you post these regulations and the accompanying cover memo in your main county welfare office for a period of sixty days.

If you have any questions regarding this letter or the enclosed materials, please contact your Medi-Cal program consultant.

Sincerely,

Original signed by

Barbara V. Carr, Acting Chief  
Medi-Cal Eligibility Branch

Enclosure

cc: Medi-Cal Liaisons  
Medi-Cal Program Consultants

Expiration Date: June 15, 1981

## DEPARTMENT OF HEALTH SERVICES

714/744 P STREET  
SACRAMENTO, CA 95814

16) 322-4990

ERRATA NOTICE

## PUBLIC HEARING ON MAY 21, 1981

The date on the published notice for the attached regulations has been changed from May 21, 1981 to May 11, 1981. The time and place for the hearing remains unchanged.

- |  |   |
|--|---|
| (1) Medi-Cal Drug Formulary<br>Changes<br>(R-64-80)                                | Title 22, Division 3<br>Proposed Regulation<br>Section 59999(b) |
| (2) Inpatient Hospital Reim-<br>bursement - 55% Occupancy<br>Standard<br>(R-71-80) | Title 22, Division 3<br>Proposed Regulation<br>Section 51537    |

March 17, 1981

## DEPARTMENT OF HEALTH SERVICES

14744 P STREET  
ACRAMENTO, CA 95814  
(916) 322 4990



STATE DEPARTMENT OF HEALTH SERVICES  
PUBLIC HEARING ON REGULATIONS

On May 21, 1981, commencing at 10:00 a.m., the State Department of Health Services will hold a public hearing in the Auditorium at 714 P Street, Sacramento, California for the following agenda items:

- |  |                                  |   |
|--|----------------------------------|---|
| (1) Medi-Cal Drug Formulary Changes<br>(R-64-80)                           | Eddie Kanenaga<br>(916) 445-0981 | Title 22, Division 3<br>Proposed Regulation<br>Section 59999(b) |
| (2) Inpatient Hospital Reimbursement - 55% Occupancy Standard<br>(R-71-80) | Art Chung<br>(916) 323-4974      | Title 22, Division 3<br>Proposed Regulation<br>Section 51537    |

The purpose of the hearing is to gather oral and/or written testimony from the public regarding the regulation changes under consideration. Attached you will find copies of recently published newspaper notices announcing the hearing and summarizing the regulation changes or containing the actual regulations. Also attached are copies of the actual regulation texts arranged in the order in which they will be considered at the hearing. Additions to the existing regulations are indicated by underscoring and deletions have been ~~dashed-out~~.

The hearing will be chaired by a hearing officer delegated by the Director of Health Services to conduct the hearing in her behalf. Persons attending the hearing will be requested to complete a registration card at the door. Those persons wishing to present oral testimony will be requested to indicate on the card those agenda items to be addressed in their testimony.

Speakers will be called by the hearing officer as the appropriate agenda items are presented, and everyone wishing to speak will be given the opportunity to do so. All testimony will be recorded by a certified shorthand reporter, and speakers will be asked to approach the microphone at the front of the hearing room and state for the record their name and the organization they represent, if any, prior to presentation of their testimony.

Although in most instances the hearing record will be closed at 5:00 p.m. on the day of the hearing, the record on individual agenda items may be held open for extended periods, at the discretion of the hearing officer, if it becomes evident that relevant written public testimony may be gathered by doing so.

Persons unable to attend the hearing or wishing to present testimony during a hearing extension period may submit written statements to:

State Department of Health Services  
Office of Regulations  
714 P Street, Room 1601  
Sacramento, California 95814

All testimony will be reviewed by the Department of Health Services prior to decision regarding final adoption of the regulation changes.

Any questions regarding the hearing may be addressed to the Department at the above address or by phoning (916) 322-4990.

(1)

TITLE 22, DIVISION 3

MEDI-CAL DRUG FORMULARY CHANGES

PROPOSED REGULATION

(R-64-80)



## DEPARTMENT OF HEALTH SERVICES

714/744 P STREET  
SACRAMENTO, CA 95814  
(916) 322-4990

## NOTICE OF PROPOSED CHANGES IN THE REGULATIONS OF THE STATE DEPARTMENT OF HEALTH SERVICES

Notice is hereby given that the State Department of Health Services, commencing at 10:00 a.m. on the 21st day of May, 1981, in the Auditorium at 714 P Street, Sacramento, California, will hold a public hearing at which any person interested may present statements or arguments orally or in writing relevant to the proposed adoption, amendment or repeal of the following regulation in Title 22, Division 3, of the California Administrative Code, summarized below. Statements or arguments submitted in writing must be received by the Department by 5:00 p.m. on the 21st day of May, 1981.

Notice is also given that the action proposed is pursuant to the authority vested by Sections 14105 and 14124.5 of the Welfare and Institutions Code, and is to implement, interpret or make specific Sections 14053, 14053.6, 14105, 14132, 14133 and 14184 of the Welfare and Institutions Code.

## Informative Digest:

The Medi-Cal program provides drugs for Medi-Cal outpatients and for patients in skilled nursing facilities through an inclusive list of drugs in the Medi-Cal Drug Formulary. Drugs not listed in the Formulary are covered through prior authorization by Medi-Cal field office consultants on a case-by-case basis.

The proposed regulation amending Section 59999(b), (c) and (e) revise the list of drugs in the Medi-Cal Drug Formulary to promote a more effective program. Eleven drugs in 13 dosage forms, either new to the Medi-Cal Drug Formulary or as new dosage forms of drugs presently listed in the Formulary, are proposed for addition to the Formulary. Also, 14 drugs, in 22 dosage forms presently listed in the Formulary, are proposed for deletion from the Formulary.

The State Department of Health Services, upon its own motion or at the instance of any interested person, may thereafter adopt the above proposal substantially as above set forth without further notice.

The estimated fiscal impact is an annual cost of \$12,000 (\$6,000 general fund). The estimated impact in Fiscal Year 1981-82 is a cost of \$11,000 (\$6,000 general fund).

The State Department of Health Services has determined that, pursuant to Section 2231 of the Revenue and Taxation Code, no additional costs or new costs to local governments will result from these regulation changes. Such determination will be made a formal part of the public hearing at the time and place described above.

Inquiries concerning the proposed administrative action may be directed to Ron C. Wetherall, Chief, Office of Regulations, at (916) 322-4000.

The express terms of the proposed action using underline to indicate additions to, and strikeout to indicate deletions from, the California Administrative Code is available to the public upon request by writing to the Office of Regulations, State Department of Health Services, 714 P Street, Room 1601, Sacramento, CA 95814. The aforementioned address is also the location of public records, including reports, documentation, and other materials related to the proposed action.

The State Department of Health Services has prepared a statement of the purpose of the proposed action and the information on which it is relying in making its proposal as required by Section 11346.6 of the Government Code, available to the public upon request.

**STATE DEPARTMENT OF HEALTH SERVICES**

R-64-80  
5310

Dated: *3/12/81*

Original signed by

Richard H. Koppes for  
Beverlee A. Myers, Director

# STATEMENT OF REASONS

The proposed regulation changes add additional drugs to the Medi-Cal Drug Formulary and delete other drugs presently listed in the Formulary.

The reason additional drugs are being added to the Formulary is that the inclusion of drugs in the Formulary increases their availability to Medi-Cal patients by eliminating the need for providers to obtain prior authorization before using them. These drugs are proposed for addition to the Formulary because these drugs are considered to be more effective, less toxic, and/or less costly than presently listed drugs used for the same indications or are needed to fill an unmet therapeutic need.

The reasons some presently listed drugs are proposed for deletion from the Formulary are that these drugs are considered to be less effective, to have greater adverse effects, and/or to cost more than other listed drugs used for the same indications. Some drugs are also no longer marketed in the United States.

The basis of the proposed additions and deletions are the recommendations of the Medical Therapeutic and Drug Advisory Committee and the California Pharmacist Association, as well as drug evaluative references such as Goodman and Gillman's "Pharmacologic Basis of Therapeutics", Medical Letters, and American Medical Association Drug Evaluation, Third and Fourth Editions.



## 59999 (b) Medi-Cal Drug Formulary

Page Change  
9 Delete

AZO GANTANOL

SEE SULFAMETHOXAZOLE AND  
PHENAZOPYRIDINE

Page Change  
9 Delete

AZO GANTRISIN

SEE SULFISOXAZOLE AND  
PHENAZOPYRIDINE

Page Change  
9 Delete

AZO-MANDELANINE

SEE METHENAMINE MANDELATE AND  
PHENAZOPYRIDINE

Page Change  
9 Delete

AZO SULFISOXAZOLE

SEE SULFISOXAZOLE AND  
PHENAZOPYRIDINE

Page Change  
15 Delete

CALCIUM AMINOSALICYLATE

+Tablets 0.5Gm  
Granule packets

0007A ear  
0007B ear

Page Change  
21 Add

CLOTRIMAZOLE

Vaginal Cream 45Gm  
90Gm

9513C Gm  
9513E Gm

Page Change  
21 Delete

6060-DIAZINE

SEE SULFADIAZINE

Page Change  
37 Add

\*ERYTHROMYCIN AND SULFISOXAZOLE

Liquid 200mg - 600mg/5cc

0267A cc

\*Restricted to use in acute otitis media.

Page Change  
38 Delete

~~ETHIONAMIDE~~  
~~+Tablets~~

~~250mg~~

0273A ea.

Page Change  
42 Delete

~~GANTANOL~~

SEE SULFAMETHOXAZOLE

Page Change  
44 Add

HYALURONIDASE  
Injection

150u  
1,500u

1950A ea.  
1950C ea.

Page Change  
51 Add

ISOSORBIDE DINITRATE  
~~+Tablets~~

sublingual 10mg

3324C ea.

Page Change  
57 Delete

~~MESULFIN~~

SEE SULFAMETHIZOLE AND  
METHENAMINE MANDELATE

Page Change  
59 Delete

~~METHENAMINE MANDELATE AND PHENAZOPYRIDINE~~  
~~+Tablets~~

0062A ea.

Page Change  
70 Add

OXYCODONE AND ACETAMINOPHEN

Capsules 4.88mg - 500mg  
Tablets 5mg - 325mg

2314C ea.  
2314T ea.

Page Change  
71 Delete

~~PANISYL~~

SEE PARA-AMINOSALICYLIC ACID

Page Change  
72 Delete

PARA-AMINOSALICYLIC ACID (INCLUDING SODIUM SALT)

+Tablets	250mg	0001A	ea.
	500mg	0001B	ea.
	600mg	0001C	ea.
	1000mg	0001D	ea.
+E.C. tablets	500mg	0001E	ea.

Page Change  
72 Delete

PARA-AMINOSALICYLATE SODIUM AND PARA-AMINOSALICYLIC ACID

+Tablets	500mg	0002A	ea.
1g	500mg	0002B	ea.
+Tablets	1000mg	0002C	ea.
1g	1000mg	0002D	ea.
Powder		0002E	ea.

Page Change  
72 Delete

PARASAL

SEE PARA-AMINOSALICYLIC ACID

Page Change  
73 Add

PAROMOMYCIN SULFATE

<u>Capsules</u>	250mg
<u>Syrup</u>	125mg/5cc

<u>0180A</u>	<u>ea.</u>
<u>0180H</u>	<u>cc</u>

Page Change  
73 Delete

PASNA

SEE PARA-AMINOSALICYLIC ACID

Page Change  
85 Delete

PROAZOGANT

SEE SULFISOXAZOLE AND  
PHENAZOPYRIDINE

Page Change  
90 Add

QUINACRINE HYDROCHLORIDE

<u>Tablets</u>	100mg
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<u>0545A</u>	<u>ea.</u>
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Page Change  
92 Delete

## REZIPAS (OR GENERIC EQUIVALENT)

86m packets  
4806m

0003A ear  
0003B 6m

Page Change  
94 Add

SILVER SULFADIAZINECream

1%

9000A Gm

Page Change  
97 Delete

## SULFADIAZINE

+Tablets

0.56m

0100A ear

Page Change  
97 Delete

## SULFAMETHIZOLE

+Tablets

250mg

0170A ear

500mg

0170B ear

Liquid

250mg/5cc

0170C ee

Page Change  
97 Delete

## SULFAMETHIZOLE AND METHENAMINE MANDELATE

+Tablets

0063A ear

Page Change  
97 Delete

## SULFAMETHIZOLE AND PHENAZOPYRIDINE

+Tablets

0171A ear

+Tablets duo pack

0171B ear

+Tablets-Forte

0171C ear

Page Change  
98 Delete

## SULFAMETHOXAZOLE

+Tablets

0.56m

0166A ear

Liquid

0166B ee

Page Change  
98 Delete

SULFAMETHOXAZOLE AND PHENAZOPYRIDINE  
+Tablets

0167A ear

Page Change  
98 Delete

SULFAPYRIDINE  
+Tablets

0r56m

0090A ear

Page Change  
98 Delete

SULFASOL

SEE SULFAMETHIZOLE

Page Change  
98 Delete

SULFISOXAZOLE AND PHENAZOPYRIDINE  
+Tablets

0164A ear

Page Change  
102 Delete

THIOSULFID

SEE SULFAMETHIZOLE

Page Change  
102 Delete

THIOSULFID A (FORTE)

SEE SULFAMETHIZOLE WITH  
PHENAZOPYRIDINE

Page Change  
102 Delete

THIOSULFID DUO-PAK

SEE SULFAMETHIZOLE WITH  
PHENAZOPYRIDINE

Page Change  
103 Add

TIMOLOL MALEATE

Ophthalmic Drops 0.25%

5cc

1430A cc

10cc

1430B cc

0.5%

5cc

1430E cc

10cc

1430F cc

Date \_\_\_\_\_  
BB-37Page Change  
103 AddTOBRAMYCIN  
Injection20mg/2cc vial  
80mg/2cc vial0347A cc  
0347C ccPage Change  
104 Delete

TREGATOR

SEE ETHIONAMIDE

Page Change  
108 Delete

UTRASUL

SEE SULFAMETHIZOLE

Page Change  
109 Delete

VIOGIN

SEE VIOMYCIN SULFATE

Page Change  
109 DeleteVIOMYCIN SULFATE  
Injection1Gm  
5Gm0272A ear  
0272B ear

Date \_\_\_\_\_

BB-37

59999 (c) Medi-Cal Drug Formulary

Page	Change
1	Add

ALUMINUM AND MAGNESIUM HYDROXIDE GEL	
Liquid	<u>600mg - 300mg/5cc</u>

4302T cc

## 59999 (e) Medi-Cal Drug Formulary Therapeutic Classifications

Page    Change  
1       Add

## AMEBACIDES

PAROMOMYCIN

Page    Change  
1       Add

## ANTIBIOTICS

ERYTHROMYCIN AND SULFISOXAZOLE  
TOBRAMYCIN

Page    Change  
2       Delete

## ANTI-TUBERCULARS

GALCIUM AMINOSALICYLATE

ETHIONAMIDE (TREACTOR)

PARA-AMINOSALICYLIC ACID (P.A.S., PASNA, PAMISYL, PARASAL)

PARA-AMINOSALICYLATE SODIUM AND PARA-AMINOSALICYLIC ACID  
(REZIPAS)

VIONYCIN SULFATE (VIOGIN)

Page    Change  
2       Delete

## SULFONAMIDES

SULFADIAZINE (GOGO-DIAZINE)

SULFAMETHIZOLE (SULFASOL, THIOSULFIL, ULTRASOL)

SULFAMETHIZOLE AND METHENAMINE MANDELATE (MESULFIN)

SULFAMETHIZOLE AND PHENAZOPYRIDINE (THIOSULFIL A, THIOSULFIL A  
FORTE, THIOSULFIL DUO)

SULFAMETHOXAZOLE (GANTANOL)

SULFAMETHOXAZOLE AND PHENAZOPYRIDINE (AZO GANTANOL)

SULFAPYRIDINE

SULFISOXAZOLE AND PHENAZOPYRIDINE (AZO GANTRISIN, AZO SULFISOXAZOLE,  
PROAZOGANT)

Page    Change  
3       Delete

## URINARY TRACT

METHENAMINE MANDELATE AND PHENAZOPYRIDINE (AZO MANDELAMINE)

Page    Change  
11      Add

## ANALGESICS

NARCOTIC

OXYCODONE AND ACETAMINOPHEN



Page    Change  
19      Add

ANTI-GIARDIASIS  
QUINACRINE

Page    Change  
19      Add

ENZYME  
HYALURONIDASE

Page    Change  
22      Add

OPHTHALMIC MIOTICS  
TIMOLOL MALEATE

Page    Change  
24      Add

DERMATOLOGICAL PREPARATIONS  
SILVER SULFADIAZINE CREAM

NOTE: Authority cited: Sections 14105, 14124.5, Welfare and Institutions  
Code. Reference: Sections 14053, 14053.6, 14105, , 14132, 14133, and 14184,  
Welfare and Institutions Code.

(2)

TITLE 22, DIVISION 3

INPATIENT HOSPITAL REIMBURSEMENT -  
55% OCCUPANCY STANDARD

PROPOSED REGULATION

(R-71-80)

## DEPARTMENT OF HEALTH SERVICES

1744 P STREET

SACRAMENTO, CA 95814

(916) 322-4990



## NOTICE OF PROPOSED CHANGES IN THE REGULATIONS OF THE STATE DEPARTMENT OF HEALTH SERVICES

Notice is hereby given that the State Department of Health Services, commencing at 10:00 a.m. on the 21st day of May, 1981, in the Auditorium at 714 P Street, Sacramento, California, will hold a public hearing at which any person interested may present statements or arguments orally or in writing relevant to the proposed adoption of the following regulation in Title 22, Division 3 of the California Administrative Code, summarized below. Statements or arguments submitted in writing must be received by the Department by 5:00 p.m. on the 21st day of May 1981.

Notice is also given that the action proposed is pursuant to the authority vested by Sections 14105 and 14124.5 of the Welfare and Institutions Code, and is to implement, interpret or make specific Sections 14100.1, 14105 and 14106 of the Welfare and Institutions Code.

## Informative Summary:

Existing law and regulations provide for inpatient hospital reimbursement based upon the lower of customary charges, allowable costs determined in accordance with Medicare standards and principles, or the all-inclusive rate per discharge multiplied by the number of Medi-Cal discharges.

This regulation would set a maximum reimbursement level for inpatient hospital services. Regardless of existing law and regulations, payment for inpatient services rendered to Medi-Cal beneficiaries would not exceed the maximum reimbursement level.

This regulation would use a 55% occupancy rate standard to determine a hospital's maximum reimbursement level.

- (1) Adopts new Section 51537 to provide for proportionate reduction of reimbursement to a hospital for inpatient services when the annual average bed occupancy rate of the hospital falls below 55% of the licensed bed capacity. The reduction will apply only to fixed costs. This change is necessary to preclude reimbursement for idle capacity.

The proposed regulation change modifies the current state-defined methodology for reasonable cost reimbursement of hospital inpatient services by adding a provision which reduces reimbursement to hospitals with average occupancy rates less than 55% of licensed bed capacity. New, rural, and sole community hospital will be exempt from the application of the 55% occupancy rate standard.

In accordance with federal regulations, the proposed change in reimbursement methodology is being reviewed for approval by the United States Department of Health and Human Services.

The Department has made copies of the regulation summarized above available for public review in the main office of each local county welfare agency. Individual copies may still be obtained by writing to the Office of Regulations, State Department of Health Services, 714 P Street, Room 1601, Sacramento, California 95814.

Written comments regarding the proposed regulation should be directed to the above address where such comments will be made available for public inspection.

The proposed effective date for implementation of the regulation change is July 1, 1981.

The State Department of Health Services, upon its own motion or at the instance of any interested person, may thereafter adopt the above proposal substantially as above set forth without further notice.

This proposed regulation has an estimated fiscal impact on an annual basis of \$21,607,000 (\$13,727,000 General Fund, \$7,880,000 federal funds) in savings to Medi-Cal. The Fiscal Year 1981-82 savings is an estimated \$15,773,000 (\$10,021,000 General Fund, \$5,752,000 federal funds). There is no cost to local governments or school districts. There is no impact upon small businesses.

Inquiries concerning the proposed administrative action may be directed to Ron C. Wetherall, Chief, Office of Regulations, at (916) 322-4990.

The express terms of the proposed action using underline to indicate additions to, and dash-out to indicate deletions from, the California Administrative Code, is available to the public upon request by writing to the Office of Regulations, State Department of Health Services, 714 P Street, Sacramento, California 95814. The aforementioned address is also the location of public records, including reports, documentation, and other materials related to the proposed action.

The State Department of Health Services has prepared a statement of the purpose of the proposed action and the information on which it is relying in making its proposal as required by Section 11346.6 of the Government Code, available to the public upon request.

STATE DEPARTMENT OF HEALTH SERVICES

R-71-80  
5365

Dated: *3/12/81*

Original signed by

Richard H. Koppes for  
Beverlee A. Myers, Directo

### Statement of Reasons

This regulation would modify the current methods of determining "reasonable cost" for all non-rural hospitals operating below an occupancy rate of 55% based upon licensed bed capacity. Such hospitals would have their Medi-Cal reimbursement level for fixed costs reduced by the proportionate amount their actual occupancy ratio falls below the 55% standard. This new rate of reimbursement would be used as an approximation of the rate the hospital would have been paid had it been operating at the prescribed occupancy standard. The 55% standard is the current median occupancy rate for all California hospitals.

Prior to July 1, 1980, Medi-Cal reimbursement for inpatient hospital services was based solely upon Medicare reimbursement principles and guidelines as prescribed by federal law. This method of reimbursement provided incentives to hospitals to expand both services and equipment, since Medi-Cal's share of any additional costs essentially was reimbursed in full. That is, the pre-July 1, 1980 reimbursement methodology did not provide any incentives for hospitals to become more efficient and to contain increases in costs.

On July 1, 1980, the Medi-Cal program adopted regulations which placed a reimbursement limit on the rate of hospital cost increases. This limit is based upon an individual hospital's cost experience during a base period plus related allowable cost increases for:

- 1) Pass-through items, e.g. the hospital's actual increase in depreciation, interest and malpractice insurance expenses;
- 2) Partial pass-through items, e.g. the rate of increase in salaries and wages
- 3) Nonpass-through items, e.g. the rate of increase in national economic indicies for food, drugs and professional fees; and
- 4) An additional 1% for increases in service intensity.

The allowable rate of increase is then adjusted for changes in the number of patients treated and, at a hospital's request, for changes in case mix or other items affecting a hospital's costs. By limiting reimbursable costs to base year costs plus the allowable rate of increase, the Medi-Cal program has provided incentives to hospitals to contain future increases in costs.

The current Medi-Cal reimbursement system, however, does not provide incentives to hospitals to reduce excessive and unused productive bed capacity. Licensed beds are a measure of the total capacity of a hospital. However many hospitals do not have all their licensed beds set up, staffed, and available for immediate occupancy. This excess of beds over those necessary to meet anticipated demand is commonly described as "excess capacity". One indicator of excess capacity is occupancy rates. In California, during 1979, the average occupancy rate was approximately 55% for licensed beds. This occupancy rate indicates that, on the average day, 45 out of every 100 licensed beds in the State were unoccupied.

The Office of Statewide Health Planning (OSHPD) is charged with determining the guidelines which the various Health Service Agencies should follow in determining

"excess capacity". OSHPD recommends that the average statewide occupancy standard should be 83% for Med/Surg, 70% for ICU/CCU, 68% for Pediatric, and 68% for Perinatal. The National and State guideline for general acute care hospital occupancy is 80%. California hospitals are far from attaining this overall goal. In 1978-79 only 5% of the facilities had licensed occupancy rates equal to or greater than 80%.

The Medi-Cal program should not pay for excess/unneeded capacity in the hospital industry. Instead, funding for inpatient services should be related to the hospital's overall occupancy rate and adjustments should be made to reimbursement when occupancy rates fall below an established standard. Reimbursement cutbacks, applied to a hospital's fixed costs, should approximate the excessive costs associated with idle capacity.

Although National and State guidelines recommend an 80% occupancy rate standard, the proposed regulation establishes a much lower standard of 55%. The 55% standard is the average occupancy rate for all hospitals in California. Using this minimal standard means that at least half of all the hospital in California will not be effected by the proposed change to the determination of a hospital's reasonable costs.

Rural hospitals, as defined in recent legislation, are typically small facilities that are the sole providers of care for a community. Additionally they usually have low occupancy rates, and few licensed beds that are not set up and staffed. Therefore, in the interests of providing adequate access to Medi-Cal patients, rural hospitals as defined in law/regulations, would be excluded from these limits.

The major technical, theoretical and empirical studies used by the Department in developing this regulation are:

- 1) California Health Facilities Commission, Inventory of Financial and Statistical Information for California Hospitals - Fiscal Years Ending June 30, 1978 - June 29, 1979, May 1980.
- 2) Ensminger, Barry, The \$8 Billion Hospital Bed Overrun, Public Citizen's Health Research Group, 1975.
- 3) Lave and Lave, The Hospital Construction Act, American Enterprise Institute for Public Policy Research, 1974.
- 4) Office of Statewide Health Planning and Development, Statewide Methods for Estimating Bed Requirements, October, 1979.
- 5) \_\_\_\_\_, 1980-81 Plan Development Guidelines, May 12, 1980.
- 6) U.S. Department of Health, Education and Welfare, National Guidelines for Health Planning, March 28, 1978.

Draft Regulations

51537. Maximum Allowable Reimbursement Level for Inpatient Hospital

Services. (a) Inpatient hospital reimbursement determined in accordance with  
Section 51536 shall be adjusted if a hospital's average annual bed occupancy  
rate is below 55 percent of the hospital's licensed bed capacity. The adjustment  
shall be made in accordance with the reimbursement level formula in (b).

(b) The reimbursement level shall be calculated by the Department of Health  
Services using the following formula, which adjusts the maximum allowable  
reimbursement level for idle licensed bed capacity as applied to a hospital's  
fixed costs.

REIMBURSEMENT LEVEL FORMULA

MARL	-	$\left( \frac{OR}{55\%} \right)$	(FC)	(TC)	+	(VC)	(TC)
Where:							

MARL = Maximum Allowable Reimbursement Level for inpatient hospital services.

OR = Average annual occupancy rate of licensed beds, expressed as a percentage.

FC = Fixed cost as a proportion of total cost.

VC = Variable cost as a proportion of total cost.

TC = Total reimbursable costs determined in accordance with Section 51536.

(c) Each hospital's total cost shall be divided into the fixed and variable  
components as specified in Section 51536 (g) (2) and (3).

(d) A hospital may request an administrative adjustment to the maximum  
allowable reimbursement level established for that hospital. The  
request shall be made within 60 days after notification of the maximum allowable  
reimbursement level and shall be made in accordance with the procedures  
specified in Section 51536 (h) (3) (B) and (C).

(e) A hospital may appeal the Department's decision on the administrative adjustment of the maximum allowable reimbursement level in accordance with Section 51536 (i).

(f) New hospitals shall be exempt from the provision of this section. A new hospital is one that has operated under present and previous ownership for less than three years.

(g) Rural hospitals shall be exempt from the provisions of this section. A rural hospital is one that meets the eligibility criteria specified in Section 1339.9 of Chapter 2, Division 2, Health and Safety Code, for a primary health service hospital.

(h) Sole community hospitals shall be exempt from the provisions of this section. A sole community hospital is one that is designated as a sole community hospital by the Health Care Financing Administration in accordance with 42 CFR 405.460 (e) (1).

(i) Each hospital shall be notified of the maximum allowable reimbursement level at least 30 days prior to implementation of any reduction in payment rates.

Note: Authority cited: Sections 14105 and 14124.5, Welfare and Institution Code.

Reference: Section 14100.1, 14105 and 14106, Welfare and Institutions Code.